

Press Release

Karan Kothari Jewellers Private Limited

April 09, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 88.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) from **ACUITE A3** on the Rs. 88.00 crore bank facilities of Karan Kothari Jewellers Private Limited (KKJPL). The outlook is '**Stable**'.

KKJPL was established in 1960 as M/s Kothari Jewelers by late Mr. Maganmal Kothari. In 1991 the name was changed to M/s Karan Jewellers and in 2004 the running operations of M/s Karan Jewellers were taken over by Karan Kothari Jewellers Private Limited. The company is currently promoted by Mr. Narendra M. Kothari and Mr. Suresh M Kothari, Mr. Mahesh M. Kothari who are the third generation of Kothari Family. The company is engaged in retail selling of Gold, Silver & Diamond Jewellery and currently has three showrooms at Nagpur and one showroom at Chandrapur in Maharashtra.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KKJPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations along with experienced management**

KKJPL has been in the jewellery business for almost 6 decades. At present, the company's day to day operations are handled by the third generation of the Kothari family Mr. Narendra M. Kothari and Mr. Suresh M Kothari, Mr. Mahesh M. Kothari who have been associated with the aforementioned industry since the past three decades. Acuité believes the long track record of operations along with extensive experience of the promoters has helped the company maintain a stable business risk profile.

- **Moderate financial risk profile**

The financial risk profile of KKJPL is healthy backed by healthy net worth low gearing and moderate coverage indicators and debt protection metrics of the company. The net worth stood at Rs.76.42 crore as on 31 March 2018 as compared to Rs.69.89 crore as on 31 March 2017. The net worth includes quasi equity of Rs.24.60 crore as on 31 March 2018. Gearing (debt-equity) stood low at 0.87 times as on 31 March 2018 as compared to 0.99 times as on 31 March 2017. The total debt of Rs.66.59 crore as on 31 March 2018 consists of working capital facility from the bank. Interest Coverage Ratio (ICR) declined to 1.36 times for FY2017-18 as compared to 2.15 times for FY2016-17. The total outside liabilities to tangible net worth (TOL/TNW) stood comfortable at 1.21 times as on 31 March 2018. Further Acuité believes that the financial risk profile will remain moderate in the absence of major debt funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

KKJPL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 206 days as on March 31 2019 compared to 186 days as on March 31 2017. The GCA days are mainly dominated by high inventory days of 203 days as on March 31, 2018 which is inherent in the retail industry. The average cash credit utilisation for the past six months stood at ~80 percent. Acuité

believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Profitability susceptible to volatility in raw material prices and intense competition

KKJPL's revenues and profitability margins are exposed to volatility in the prices of gold - the major raw material. The gems & jewellery (G&J) industry is characterised by a large number of organised and unorganised players and intense competition. This has further resulted in deterioration of revenue from Rs. 284.07 crore for FY2017 to Rs. 267.88 crore for FY2018. It has also added pressure to the operating margins of the company which has fallen from 7.42 percent in FY2017 to 5.85 in FY2018.

Liquidity Position

KKJPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.55 -8.45 crore during the last three years through 2017-18 against no maturing debt obligations due to the lack of any long term debt during the same period. The cash accruals of the company are estimated to remain around Rs.3.50 – 5.60 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.10 – 0.30 crore. KKJPL's operations are working capital intensive mainly due to the retail nature of business. This is further marked by gross current asset (GCA) days of 206 in FY2018. This has led to increased reliance on working capital borrowings, the cash credit limit in the company remains utilized at 80 percent during the last 12 months period ended February 2018. KKJPL maintains unencumbered cash and bank balances of Rs.3.98 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.72 times as on March 31, 2018. The company is not likely to incur any capex over the medium term. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals and no repayments over the medium term.

Outlook: Stable

Acuite believes that KKJPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	267.88	284.07	275.39
EBITDA	Rs. Cr.	15.67	21.08	14.11
PAT	Rs. Cr.	2.43	7.87	2.01
EBITDA Margin	(%)	5.85	7.42	5.13
PAT Margin	(%)	0.91	2.77	0.73
ROCE	(%)	10.75	16.75	20.67
Total Debt/Tangible Net Worth	Times	0.98	0.99	1.10
PBDIT/Interest	Times	1.36	2.15	1.34
Total Debt/PBDIT	Times	4.49	2.97	4.87
Gross Current Assets (Days)	Days	206	186	197

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Jan-2018	Cash Credit	Long Term	68.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	68.00	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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